



The Cuban economy is going through this year "in exceptional conditions." Added to the heavy burden of a "reinforced" blockade are the effects of the pandemic, which put key activities such as tourism on hold. Living with a noticeable contraction in exports and, on the other hand, with fewer purchases abroad, poses challenges and urgencies for Cuba.

An urgent need is to resume the pending measures and "immediately correct all possible distortions," as President Miguel Díaz-Canel explained in his speech to the Council of Ministers on July 17.

It was learned that the National Plan for Economic and Social Development until 2030 and a strategy to face the current crisis were approved, a projection that "starts from the need to transform the behavior of the Cuban economy with aggressiveness, intensity and innovation."

If we look at the short term, taking into account the priorities announced by the Cuban president, the focus will be - among other things - on concluding the process of monetary and exchange unification, which will allow "to remove almost all of the obstacles that we have today for the development of the productive forces in our country".

Díaz-Canel announced that as part of the ongoing transformations "we are going to give the results of the latest analyzes to complete the full scope of the monetary and exchange unification task, to approve it in the shortest possible time, and also implement it, when is approved, in its entirety".

Precisely, the Guidelines in force until 2021 established as a priority to finalize the monetary order in Cuba.



Fragments of the Central Report to the 7th Congress of the Communist Party of Cuba, presented in Havana on April 16, 2016, by the First Secretary of the Central Committee, General of the Army Raúl Castro Ruz

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*La muestra más elocuente de la complejidad del proceso de implementación radica en la dualidad monetaria y cambiaria, asunto en el que no se ha dejado de trabajar a lo largo de estos años, y cuya solución no quedará para las calendas griegas, ya que, aunque no representa la solución mágica a las distorsiones estructurales de la economía, significará un impulso fundamental para avanzar en el resto de las tareas de la actualización de nuestro modelo económico.*

*El ordenamiento monetario del país facilitará crear las condiciones requeridas para superar los nocivos efectos del igualitarismo y hacer realidad el principio socialista que expresa “de cada cual según su capacidad, a cada cual según su trabajo”. Con ello será posible rectificar el fenómeno de la llamada “pirámide invertida” que no permite retribuir de manera justa el trabajo en función de su cantidad, calidad y complejidad y que el nivel de vida se corresponda con los ingresos legales de los ciudadanos, generando desmotivación de la fuerza laboral y también en los cuadros, lo cual desestimula su promoción a mayores responsabilidades.*



Two months and 20 days before the island confirmed its first cases of COVID-19, the Cuban president would report to the National Assembly that the monetary order was in the "advanced phase of study and approval."

At that time, as he explained, the efforts were “in the comprehensive validation of the results of each topic; the elaboration of the legal norms, the organization and execution of the training, political assurance and social communication processes”.

Once again, the Government's decision expressed on previous occasions would be ratified: "Bank deposits in foreign currency, convertible pesos, Cuban pesos, as well as cash in the hands of the population will be guaranteed."

Now, when the circumstances generated by the pandemic once again pose to the country the urgency of "exporting and betting on the national industry: more than an option, as a necessity",

it is essential to continue untying ties that hinder the operation of the business system. One of the old obstacles has been the exchange rate duality.

Other changes have to do with:

the strengthening of the socialist state enterprise, where the first thing to prioritize are the 33 measures that have already been approved to achieve greater autonomy in its management;  
the reordering of internal trade;  
the modification of the currency distribution system in the economy;  
the participation of the national industry as an important provider of goods and services demanded by the economy;  
the increase and diversification of exports, including the export of all forms of management, through state companies of Foreign Trade;  
the design and implementation of tax incentives for exporters;  
the improvement of the work of the non-state sector, with immediate priority in the expansion of self-employment, to remove obstacles;  
the elimination of the tax on the purchase of dollars;  
the ways and mechanisms for channeling remittances based on economic and social development;  
the design and implementation of the public debt market with the participation of various sectors.

Right time for monetary ordering?

Having heard the announcement by the Cuban president about the proximity of the monetary system, many would ask if with the current convoluted scenario it is appropriate to solve this problem that has dragged on for years. To clear up the question, Cubadebate spoke with the adviser to the Ministry of Economy and Planning (MEP), Lázaro Toirac.

The expert begins the analysis by recognizing that it is a lengthy process, as the First Secretary of the Party, Raúl Castro Ruz, has said on different occasions. Although, he insists, neither can we ignore "the complexity of the task, which is very great."

However, given the difficult international situation "it is more necessary than ever to have efficiency, which is achieved if there is transparency and coherence" in the country's economic activity. For this, he believes, it is urgent to put an end to the monetary duality and, above all, exchange rate.

Another reasoning that supports his criterion is that waiting for the optimal state will be permeated with subjectivities. Certainly, the expert argues, under current conditions, unification is a challenge; however, "we cannot continue to advance in this complex world with obsolete instruments".

"We need an economy that sends us the correct signals, whether good or bad," adds the adviser to the head of the MEP.

But where is the problem? Contrary to what some might have imagined, the biggest

complication is not the existence of two currencies, but rather that there are different exchange rates, one for the population ( $25 \text{ CUP} = 1 \text{ CUC} = 1 \text{ USD}$ ), and another for legal persons ( $1 \text{ CUC} = 1 \text{ CUP} = 1 \text{ USD}$ ).

**Tipos de monedas**

**CUP** peso cubano (with image of a Cuban peso coin)

**CUC** peso convertible (with image of a Cuban convertible peso coin)

**CLC** carta de liquidez (with text: con la cual se identifican los CUC que tienen respaldo en divisas (solamente funciona en el sistema empresarial))

**Tipos de cambios**

**25 CUP = 1 CUC** para la población

**1 CUP = 1 CUC** sector empresarial

**Varios convertidores**  
Por ejemplo, en el pago a los trabajadores de la Zona Especial de Desarrollo; en las empresas mixtas, y en el pago de los hoteles a los campesinos

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Many are the difficulties caused by this duality of circuits. And the confusion begins when it comes to measuring the real costs of business activity, having unreliable economic records, according to Toirac.

On the other hand, the equivalence of the Cuban peso with the dollar obscures the signals of the international market and the analysis of the profitability of companies. As this economist emphasizes, it is necessary to question when they say "that one company has good results and another fell into losses."

Implicit subsidies, which appear almost inevitably, become a salvage table for some economically unplayable companies. While others, particularly exporters, need to be subsidized by the budget: for every dollar that they enter they receive a peso in national currency, in many cases with much higher internal costs in CUP.

The current 1x1 exchange rate discourages exports, which in itself requires additional efforts, since we must study the market and have efficient logistics, and "for many it is a headache." This leads to the fact that, "inertially, the products to be exported do not vary from rum, tobacco, sugar," among others, the interviewee points out.

To unblock these entanglements and favor business autonomy, Toirac points out, closed financing schemes have been promoted, a palliative until exchange rate unification occurs.

Once the expected "zero day" arrives and the Cuban peso is devalued, exporters will receive the corresponding incentives, while importers will make purchases more expensive, which will cause them to "turn to the domestic economy."

The risks and challenges



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*La dualidad monetaria y cambiaria tiene un efecto en toda la sociedad y en la economía, y no es solo quitar una moneda y poner un tipo de cambio: tiene que ver con la formación de los precios, tiene que ver con el ingreso de las personas, tiene que ver con la capacidad de compra que tiene el salario, de lo que tanto se ha hablado en estos días, y lo que puedo informar es que eso, en estos momentos, todos los estudios hechos en estos años han permitido tener bien definido cuáles son las premisas y cuáles son los problemas que hay que resolver y se trabaja intensamente.*



Intervención de Marino Murillo Jorge, jefe de la Comisión de Implementación y Desarrollo, en el X Período Ordinario de Sesiones de la VIII Legislatura de la Asamblea Nacional del Poder Popular



It has not been a secret that the only currency that will remain circulating in Cuba will be the CUP, and the objective "is to try to bring it closer to an exchange rate that can be recognized in its comparison with international currencies, so that there is clarity in transactions", according to the advisor to the Minister of Economy and Planning.

But, "it is not a matter of taking the peso, I devalue it and from tomorrow I begin to work and that, as in many countries, the citizen finds out from the newspaper the next day, where the bank announces the devaluation rate and recommends the salary increases".

The problem is that the costs of production will rise, and with it the prices of goods and services. According to experts, the solution is to put a "cushion" to prevent this from happening, that is, to subsidize the prices that rise as a result of increased costs. Another alternative is to raise your income.

When and why did the dual currency emerge in Cuba?

It all started in the early 1990s, with the so-called Special Period. Cuba had lost its main trading partners (members of the socialist camp) and, therefore, was experiencing a significant deterioration in its economic indicators.

The adviser to the head of the MEP recalls that the island underwent a process of devaluation of the Cuban peso against the dollar that reached figures of up to 150 CUP per USD, hence in 1993 the partial circulation of the dollar was released.

"It always started from the idea (of Commander in Chief Fidel Castro) that the economic activities that could generate their income would seek mechanisms to do so, such as nickel and sugar. Thanks to this step, many entities felt stimulated, at the same time that they obtained a certain economic independence such as the ability to import, although this did not have a direct impact on the internal economy".

A group of actions were approved with the objective of capturing and distributing part of the foreign currency received in the country, mainly for remittances from Cubans residing abroad, as well as for the spill of tourism that was beginning to develop, to benefit to the rest of the population who did not have this possibility.

Organization of a network of stores (currency collection stores) for the retail sale of products and services in dollars.

Creation of exchange houses (CADECA) in 1995, which makes it possible to exchange the dollar and other convertible currencies for the Cuban Peso.

The population is allowed to open savings accounts in foreign currency.

Incentives in foreign currency were authorized for workers of entities that carried out prioritized activities.

Resolution No. 357 of the Central Bank of Cuba, of 1994, authorized the circulation of the Cuban Convertible Peso (CUC) equivalent to the dollar.

In September 1995, Law No.77 on Foreign Investment was approved, currently replaced by Law 118/14.

In July 2003, through Resolution No. 65 of the Central Bank of Cuba, the circulation of the dollar in the state sector is eliminated and the circulation of only two national currencies is authorized: the Cuban Peso and the Cuban Convertible Peso.

In October 2004, by Resolution No. 89 of the Central Bank of Cuba, the previous measure was extended to retail trade.

Since then, two exchange rates have been maintained, one appreciated of 1 CUP for 1 CUC in economic-financial relations in the state sector and another for the non-state sector and the population, which had a greater oscillation at the beginning and then managed to stabilize between 20 and 25 CUP for 1 CUC.

In Lázaro Toirac's opinion, when the CUC was born it fulfilled a function, while other experts on the subject refer that the short-term benefits began to be outweighed by the costs imposed by its extension over time. This leading economist warns that the monetary and exchange system will not create more wealth. Likewise, in the case of the impact on the update of the model, it means a necessary but not sufficient condition.

## Pasos hacia el ordenamiento monetario:



- 2011** Lineamiento número 55, aprobado en el VI Congreso del PCC: Se avanzará hacia la unificación monetaria, teniendo en cuenta la productividad del trabajo y la efectividad de los mecanismos distributivos y redistributivos. Por su complejidad, este proceso exigirá una rigurosa preparación y ejecución, tanto en el plano objetivo como subjetivo.
- 2013** El Consejo de Ministros de la República de Cuba acordó poner en vigor un cronograma de ejecución de las medidas que conducirán a la unificación monetaria y cambiaria.
- 2014** En la Gaceta Oficial Extraordinaria No.12 del año 2014 se publican en las resoluciones No. 19, 20 y 21, del Ministerio de Finanzas y Precios para formar los precios mayoristas y minoristas por parte de las personas jurídicas, a aplicarse a partir del momento en que en el país se decreta la unificación monetaria.
- En 2014 comenzó a aplicarse la opción del pago en las tiendas recaudadoras de divisas en las dos monedas (CUP, CUC, recibándose los vultos en CUC).
- 2016** En los lineamientos actualizados fijados hasta 2021 (número 40): Concluir el proceso de unificación monetaria y cambiaria como un paso decisivo en el ordenamiento monetario del país.
- 2019** La Resolución No. 276, de 15 de octubre de 2019, del Presidente del Banco Central de Cuba, modifica la importación y exportación de moneda nacional y pesos convertibles. De esta manera queda prohibido comprar con CUC en las tiendas Duty Free de los aeropuertos del país. En las salas de última espera los pasajeros pueden adquirir estos productos en dólares norteamericanos, en dólares canadienses, en euros y en pesos cubanos.
- Comenzó de forma experimental en diciembre de 2019 la implementación de los vultos en pesos cubanos (CUP) en Centros Comerciales Almendares y en 5ta y 42, ambos en La Habana.
- 2020** En febrero se elimina el pago en CUC en las unidades del sistema de comercio que prestan servicios gastronómicos.

Key terms that you must know to face the monetary and exchange unification

**Fiscal deficit (also budgetary or public):** The one that occurs when the expenses made by the State exceed the income, in a certain period, normally a year.

**Devaluation (monetary):** Loss of the nominal value of a current currency against other foreign currencies. The coins represent a value, related to the wealth of the country in question. The currency itself does not have a real value, but is only representative and if the nation issues more coins or gives them a higher value than it can support with its wealth, adjustments have to be made regarding the value of these.

**Speculation:** Commercial operation that is practiced with merchandise, securities or public effects with the sole purpose of profiting from the variations in its market price.

**Inflation:** Generalized increase in average prices in a country for a given period of time. Like other economic indicators, they are usually calculated for one year—in order to be able to correlate it with others and compare it nationally and internationally—, but can be estimated for other time periods.

**Hyperinflation:** Very high inflation, out of control, in which prices rise rapidly as the currency loses its value.

**Liquidity:** Quality of assets (tangible or intangible assets owned by companies or people) to be converted into cash immediately without significant loss of value. The easier it is to convert an asset into money, it is said that it is more liquid. By definition, the most liquid asset is money; that is to say, the notes and coins have an absolute liquidity. Similarly, bank deposits are completely liquid and therefore from a macroeconomic point of view are also considered money.

**Gross Domestic Product (GDP):** Macroeconomic measure that expresses the monetary value of the production of goods and services in a country during a specified period of time (normally one year). GDP is used as a measure of the material well-being of a society and its calculation is framed within the national accounts.

**Recession (or recessive state):** Generalized decrease in economic activity in a country or region, measured by the decrease, in annual rate, of the real gross domestic product (GDP), over a prolonged period. // Decrease in activities economic, commercial and industrial.

**Redistribution ("for redistributive purposes"):** Process consisting of modifying the distribution of a good among economic agents because they consider that it is not adequate, generally following criteria of justice or equity.

**Remittance:** Sending a thing from one place to another. In this case, referring to the sending of money that Cubans living abroad send to their relatives or other people in Cuba.

**Rate or exchange rate:** Ratio of proportion that exists between the value of one currency and another. Indicator that expresses how many units of one are needed to obtain one unit of the other.



Financial consolidation: A process that consists of strengthening public revenues and containing excessive growth in expenses, in order to reduce the fiscal or budget deficit.

External sector: Set of activities and strategies carried out by States in the international arena in order to maintain an adequate productive, commercial, financial exchange, etc., that ensures the development of their peoples.

Subsidy: Extraordinary financial aid or assistance granted by an official body to a person or entity; also to products or services. (Taken from <http://www.cubadebate.cu>)